NATIONAL DAIRY
PRODUCTS CORPORATION
ANNUAL REPORT 1957

Our Products And Their Uses

The color photographs appearing in the pages of this Report show some of the leading food products of National Dairy, and the familiar brands by which our stockholders can identify them in the marketplace. The photos also suggest ways in which these products may be used at home. Since the Company's products are so numerous, we have pictured only selective lines which illustrate the wide range of varieties, flavors, sizes and shapes in which they are sold to consumers.

NOTICE TO STOCKHOLDERS

ANNUAL MEETING: The Annual Meeting of the stockholders of National Dairy Products Corporation will be held on Thursday, April 17, 1958, at 11 a.m. at the Hotel Biltmore, Madison Avenue and 43rd Street, New York City. A formal notice of the meeting, together with proxy statement and proxy form, will be mailed to each stockholder on or about March 21, at which time proxies will be requested for use at this meeting.

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NATIONAL DAIRY PRODUCTS CORPORATION

ANNUAL REPORT

For The Year Ending December 31, 1957

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REVIEW IN BRIEF

OPERATING RECORD

	1957	1956
WE RECEIVED INCOME:		
From the Sale of Products	$1,432,319,000	$1,352,878,000
From Other Sources	6,130,000	5,693,000
Total Income	$1,438,449,000	$1,358,571,000
WE INCURRED COSTS AND EXPENSES:		
Milk and Other Products	$ 783,780,000	$ 733,806,000
Wages and Salaries	244,558,000	233,491,000
Operating Services and Supplies	140,574,000	137,730,000
Packaging	113,354,000	106,587,000
Taxes	54,373,000	49,708,000
Repairs and Maintenance	27,100,000	26,434,000
Depreciation	27,917,000	26,285,000
Interest on Long-term Debt	2,735,000	2,813,000
Total Costs and Expenses	$1,394,391,000	$1,316,854,000
WE EARNED:		
In Total	$ 44,058,000	$ 41,717,000
On Each Dollar of Sales	3-1/10¢	3-1/10¢
On Each Share of Stock	$ 3.18	$ 3.02
WHICH WAS DISTRIBUTED AS FOLLOWS:		
Retained in Business	$ 19,166,000	$ 17,873,000
Dividends to Shareholders	24,892,000	23,844,000
Per Share	$ 1.80	$ 1.75

FINANCIAL POSITION

	1957	1956
WE OWNED:		
Cash and Marketable Securities	$ 54,918,000	$ 51,617,000
Accounts Due Us	65,841,000	65,948,000
Products, Materials and Supplies	146,417,000	150,135,000
Property, Plant and Equipment (net)	239,676,000	221,117,000
Investments and All Other Assets	28,416,000	23,444,000
Total Owned	$ 535,268,000	$ 512,261,000
WE OWED:		
For Materials, Services and Taxes (net)	$ 96,801,000	$ 91,948,000
Long-term Debt (less Debentures in treasury)	92,147,000	95,068,000
Reserves, etc.	4,744,000	3,892,000
Total Owed	$ 193,692,000	$ 190,908,000
NET WORTH:		
Difference between What We Owned and What We Owed	341,576,000	321,353,000
	$ 535,268,000	$ 512,261,000

(The statements of Consolidated Profit and Loss and Surplus will be found on pages 18 and 19; Consolidated Balance Sheets on pages 16 and 17.)

TO OUR STOCKHOLDERS

This Annual Report for 1957 tells the story of another year of sound, steady growth for National Dairy in both our domestic and foreign business.

During the year, the Company encountered continued increases in the cost of doing business, and experienced progressively keener competition in the marketplace for quality foods. We also faced the problems arising from the constantly shifting trends in the demands and desires of the consuming public, as well as those which grew out of the ever-changing pattern of food distribution. The results of our efforts to meet these, and the other business issues of the year, are carried in the pages of this Report.

The story of National Dairy in 1957, however, is more than facts and figures. It is also the story of the thousands of men and women of National Dairy who worked together daily in many communities to provide the family table with foods that are essential to health and to the enjoyment of life. This Report is designed to give a picture of National Dairy at work . . . of its people and its products . . . and to show how our stockholders' investment was employed.

It is my hope that the stockholders of National Dairy will feel that they know their Company better, after reading this Report.

E. E. Stewart

President and
Chairman of the Board

REPORT OF MANAGEMENT

1957 was one of National Dairy's best and busiest years, with sales increasing 5.9 per cent, and earnings up 5.6 per cent.

The progress accomplished last year throughout our operations is shown by the Consolidated Financial Statements published on Pages 16-20 (which include the United States and Canadian business), and by the Condensed Statements on Page 21 covering our overseas business.

National Dairy's performance for the year reflects many elements of the Company's leadership. Our financial structure was sound. Our organization was well-integrated, capably-manned and strongly-competitive. Our manufacturing and distribution facilities were among the finest and most efficient in the food industry. In short, we were well-equipped to meet the challenges of 1957.

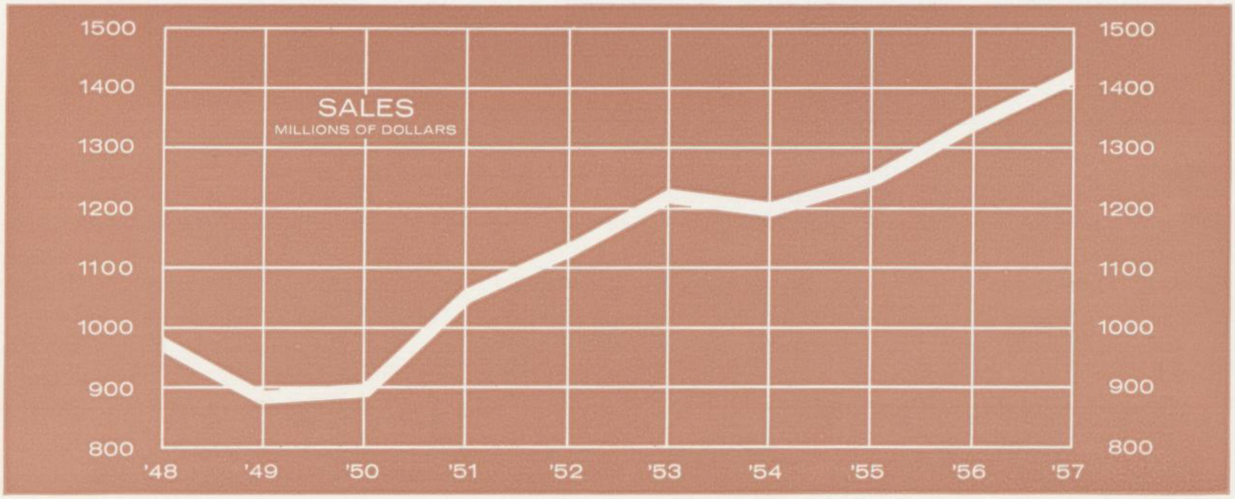
SALES AND EARNINGS

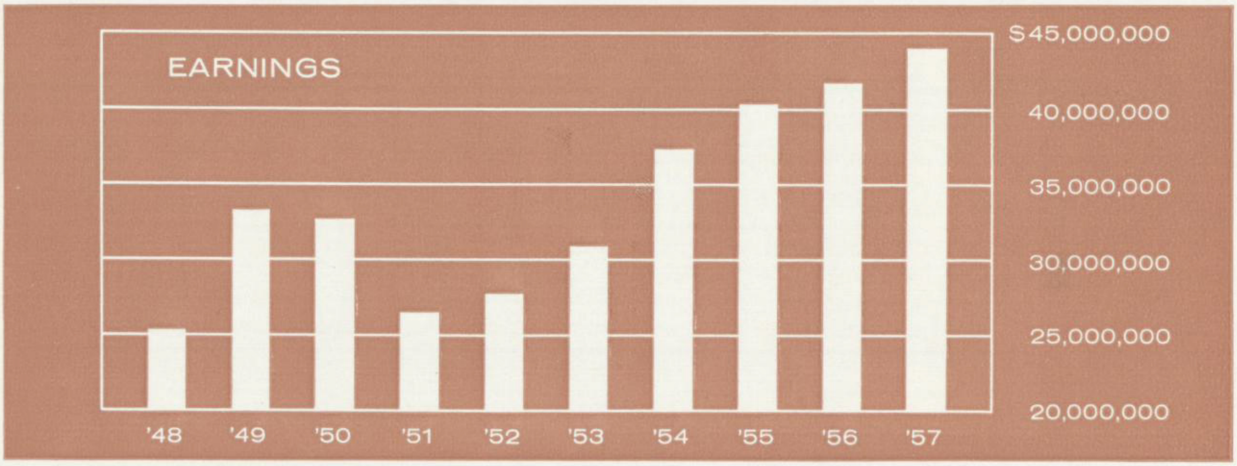
Total sales for 1957 were $1,432,319,000 as compared with $1,352,878,000 in 1956, an increase of $79,441,000 for the year. The volume of products sold in most of our many lines showed very satisfactory gains.

The Company's net earnings increased for the sixth successive year, rising to $44,058,000, as compared with $41,717,000 in 1956. Earnings per share totaled $3.18 based on 13,845,458 shares outstanding at the year-end, as against $3.02 on the 13,809,746 shares outstanding at the end of 1956. The favorable results of increased tonnage processed in modern, efficient plants; of improved techniques in production and distribution, and of continued concentration on strong, aggressive merchandising of all our products, are reflected in these earnings.

The profits for 1957 were achieved despite the fact that the amounts paid for raw materials again totaled more than half our income from sales; while the costs involved in payroll, packaging, repairs and maintenance, and other operating services and supplies continued to increase. The Company's total costs and expenses for the year were $1,394,391,000, an increase of $77,537,000 over 1956.

The break-down of our costs in 1957, in terms of the proportion each cost factor took out of our total sales revenue for the year, is as follows: 54.7 per cent for farm products and other





raw materials; 17.1 per cent for wages and salaries; 3.8 per cent for taxes, and 21.3 per cent for all other charges. The remaining 3.1 per cent represented the net profit realized on 1957 sales.

Before the provision for Federal and Canadian income taxes, earnings were $83,758,000 last year, as compared with $76,467,000 in 1956. The provision for income taxes was $39,700,000 as against $34,750,000 a year earlier. Other taxes, including state and local, amounted to $14,673,000, making our total tax bill for the year $54,373,000, or $3.93 per share.

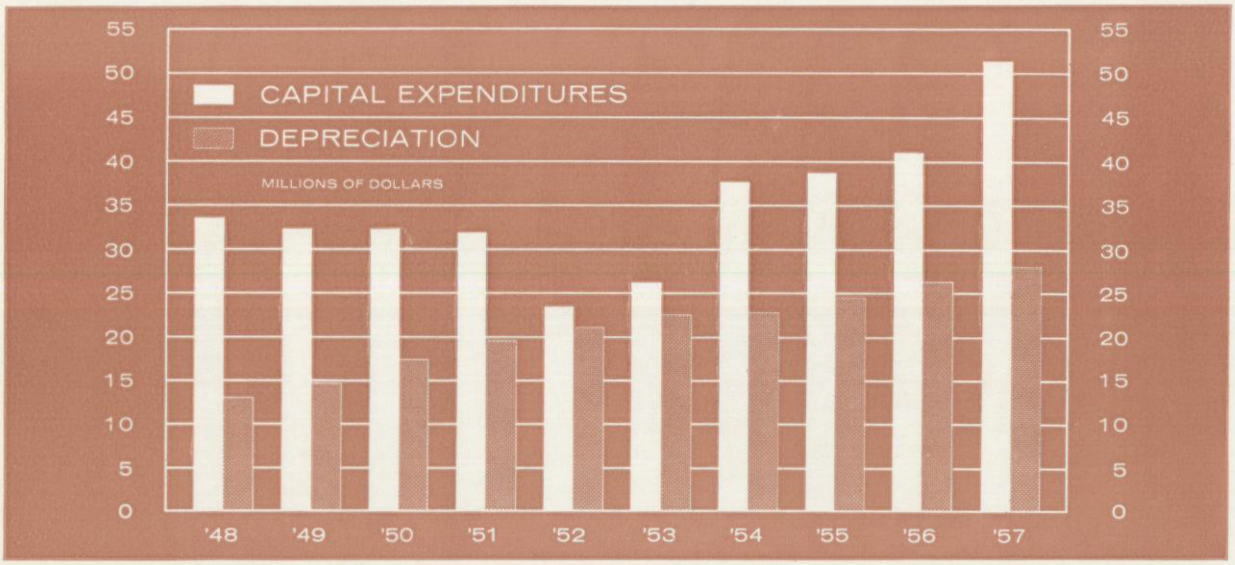
Dividends

Dividends paid to our stockholders in 1957 amounted to $1.80 on each share outstanding, as compared with $1.75 per share in 1956. Total dividends last year were $24,892,000, as against $23,844,000 for the previous year. The balance of 1957 earnings, amounting to $19,166,000, was retained in the business to provide for the growth of the Company.

National Dairy stock continued to be widely held. At the year-end, the number of stockholders was 68,364 of which 66,085 were individuals residing in all 48 states and many foreign countries, who held stock in their own names. The remainder consisted of a variety of institutional holders, including insurance companies, banks and trust companies, business corporations, mutual funds, investment clubs, pension funds, universities, foundations, churches, hospitals, charitable organizations and other institutions. At the end of 1957, there were 2,279 such agencies among our stockholders. The number of people with a close interest in National Dairy is therefore considerably larger than the number of our registered stockholders, and there is special pride in the knowledge that the successful operation of our business contributes to the welfare of so many fine institutions.

Financial Position

The Company's financial position remained strong. At the end of the year, current assets included $54,918,000 in cash and $212,258,000 in inventories and receivables, for a total of $267,176,000; while current liabilities totaled $100,048,000. Working capital amounted to $167,128,000.



The depreciated cost of land, buildings, machinery and equipment totaled $239,676,000 for 1957, as compared with $221,117,000 for the previous year. Total assets were $535,268,000 as against $512,261,000 a year ago. At the year-end, the Company's long-term debt totaled $88,900,000 as compared with $92,150,000 in 1956, a reduction of $3,250,000.

Stockholders' equity in the business has increased during the past 10 years from $154,529,000 at the end of 1948 to $341,576,000 at the close of 1957. Earnings that have been retained in the business have been used chiefly for the construction of new plants; the modernization of existing plants; the installation of new, more efficient equipment, and the replacement of processing and distribution facilities.

Capital Expenditures

The Company's operations in 1957 showed the effects of our long-range capital expenditures program, which is designed to increase the quality and quantity of product output and to provide greater operating efficiencies in our ceaseless drive against higher costs. Operating efficiency is an important factor in the determination of profits, and for this reason the Company conducts a continuing survey of its physical needs and facilities. These studies provide the basic data for model milk, ice cream, cheese and other types of food plants, as well as the plans for processing machinery and other equipment which embody the latest and most practical improvements.

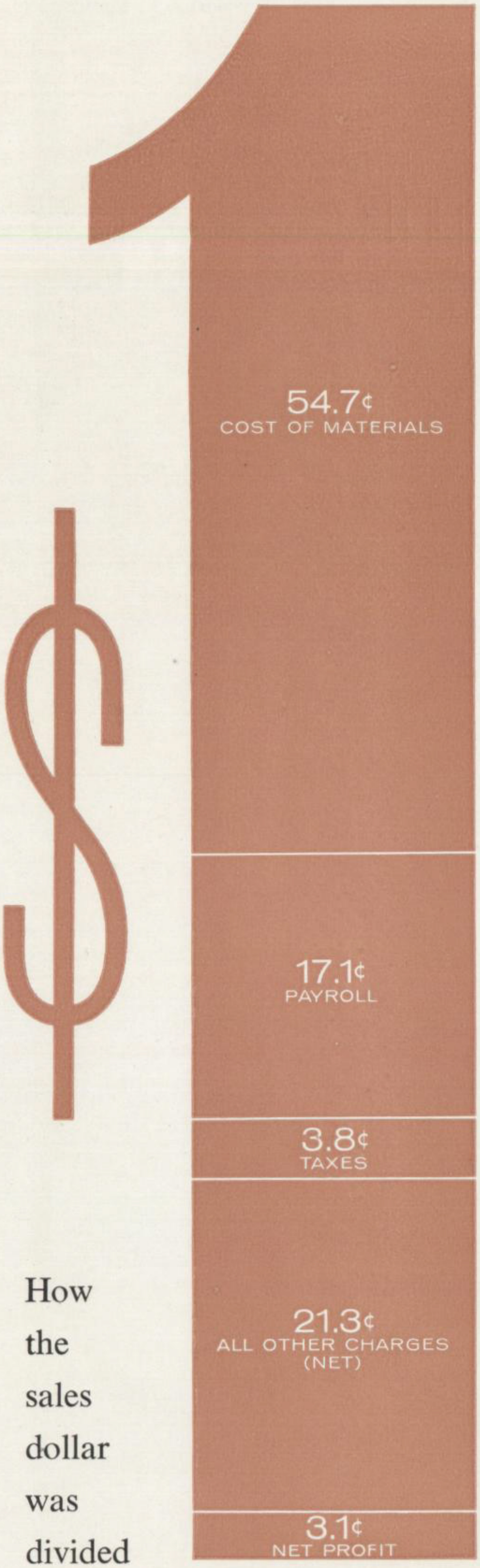
During the year, the Company's capital expenditures were $51,284,000, as compared with $41,188,000 for the previous year. The provision for depreciation amounted to $27,917,000. Late in the year, your Directors approved a budget of $51,258,000 for capital expenditures in 1958.

During 1957 in our Sealtest Division we completed new milk plants located at Peoria, Ill. and Lansing, Mich., and started construction on a new plant for processing milk and ice cream at Louisville, Ky.

Several new distribution branches were completed and put into service to keep abreast of the expanding markets for Sealtest products, including milk branches at Cleveland, O., Annapolis, Md. and Norristown, Pa.; an ice cream branch at Toledo, O.; and combined milk and ice cream branches at Portersville, Pa. and Waterbury, Conn. In addition, we started construction on three other ice cream distribution branches for this Division at Allentown and Amityville, Pa., and at Fond du Lac, Wisc.

For the Kraft Foods Division, a new plant for

Breakstone's
Pasteurized
Sour Cream
Homogenized
Sealtest
Skim Milk
Grade A Pasteurized
Skim Milk
One Quart Liquid
Southern Dairies, Inc.
Birmingham, Al
Vitamin D Milk
Grade A Pasteurized Homogenized
Vitamin D Milk
Chocolate Milk
Grade A Pasteurized
Chocolate Milk
Buttermilk
Pasteurized Butter Milk
One Quart Liquid
Supplee-Wills-Jones Milk Company
Philadelphia, Pa.
Creamed Cottage Cheese
Grade A Pasteurized
Whipping Cream
Breakstone's
California Style
Creamed Cottage Cheese
Pasteurized



How the sales dollar was divided

the production of Swiss cheese was completed at Stockton, Ill.; another new plant for making American cheese was opened at Greeneville, Tenn.; while additions to increase the output of Brick and Muenster cheese were made to the existing plant at Summitville, Ind.

Late in 1957, construction was begun at Buena Park, Calif., near Los Angeles, on what is to be one of the largest processing and distributing plants in the Kraft Foods Division. Here cheese, salad dressings, margarine, cooking oils, confections and other products will be processed for the fast-growing West Coast markets. Across country, new sales branches were opened in Philadelphia, Pa. and Raleigh, N. C. to facilitate distribution in these areas.

Toward the end of the year, we also completed the installation of equipment and started the production of vegetable oils and shortening in the additional refinery we have built at Champaign, Ill. for our Humko Division, whose headquarters plant is located at Memphis, Tenn.

Canadian Business

Operating from the modern Kraft processing and distributing plant at Montreal, Que., our Canadian business experienced its most successful year, with a substantial gain in practically all product sales. Through the facilities of the Montreal plant, Kraft products were offered to Canadian consumers in even wider variety and readier availability, as they were channeled into the distribution system through 12 sales branches located in the various Provinces of Canada.

Overseas Operations

The business of our foreign subsidiaries continued its steady increase during a year marked by plant expansion in Europe and Australia, and by the extension of our product lines in these overseas markets.

Highlights of the year in our thriving foreign business were the openings of new processing plants at Liverpool, England, and Fallingbostel, Germany; together with the formal opening attended by His Excellency, the Governor of Vic-

SHARP
Cracker Barrel Brand Cheese
NATURAL CHEDDAR
from KRAFT
KRAFT FOODS
8 OZS NET WT
8 OZS NET WT
KRAFT DE LUXE SLICES
PASTEURIZED PROCESS AMERICAN CHEESE
8 SLICES
8 SLICES
KRAFT PASTEURIZED PROCESS AMERICAN CHEESE
PHILADELPHIA BRAND
PASTEURIZED CREAM CHEESE
KRAFT FOODS
Made only by KRAFT

toria, of the new plant which had already begun operations at Melbourne, turning out more products for Australian customers.

In England, the new Liverpool plant with its modern facilities for food processing, increases our business opportunities throughout the British Isles. In addition to its far-reaching production lines, this plant also houses extensive facilities for sales and distribution. In conjunction with the 15 sales branches operated in England, Ireland and Scotland, it permits the distribution of a full line of Kraft products in the United Kingdom—each item custom-built and packaged to suit particular British tastes.

In Germany, the new Fallingbostel plant, near Hamburg, is a large, up-to-date manufacturing installation which will assist in meeting the growing needs of our business in West Germany. Directed from the headquarters in Frankfurt, these augmented production facilities—combined with sales branches in Hamburg, Duesseldorf, Stuttgart and Munich—make it possible to cover the German market with products whose brands symbolize high-quality the world over.

Our business in Denmark—a market which we have entered recently—showed progress during 1957.

National Dairy's total foreign sales (excluding Canada) increased by 15 per cent, reaching $95,600,000, as compared with $83,393,000 in 1956. Foreign earnings were down for the year, due to unusual costs incurred in starting up the new plants, as well as the expenses involved in installing a new system of distribution in certain of these overseas markets. While the Company's share in foreign profits for 1957 amounted to $2,691,000, we took into earnings only the $1,984,000 received as dividends from our overseas subsidiaries.

CHANGING PRODUCTS FOR CHANGING DEMANDS

We made a number of advances during the year in our unending search for improvements in products, processing and packaging. Research begun years ago is primarily responsible for many of the products we now make and sell in the great retail and institutional markets. Our yardstick for the development of any product is that it should be attractive to young and old; that it should be adapted to daily use; that it should combine quality with convenience; that it should provide real value to the customer; and that it should yield a satisfactory profit. When there is added our research in packaging, the complete program keeps us well abreast of the changing trends in consumer desires and food habits.

During 1957, we made solid progress in improving and adding to the variety and consumer appeal of many of our established product lines, both through flavor development and packaging design. In its special ice cream promotions, our Sealtest Division introduced several new flavors which gained immediate acceptance. The Sealtest Kitchens developed interesting recipes for milk, cream and cottage cheese. The use of larger, economy-sized containers, like the half-gallons of Sealtest and Breyers ice creams, continued to grow.

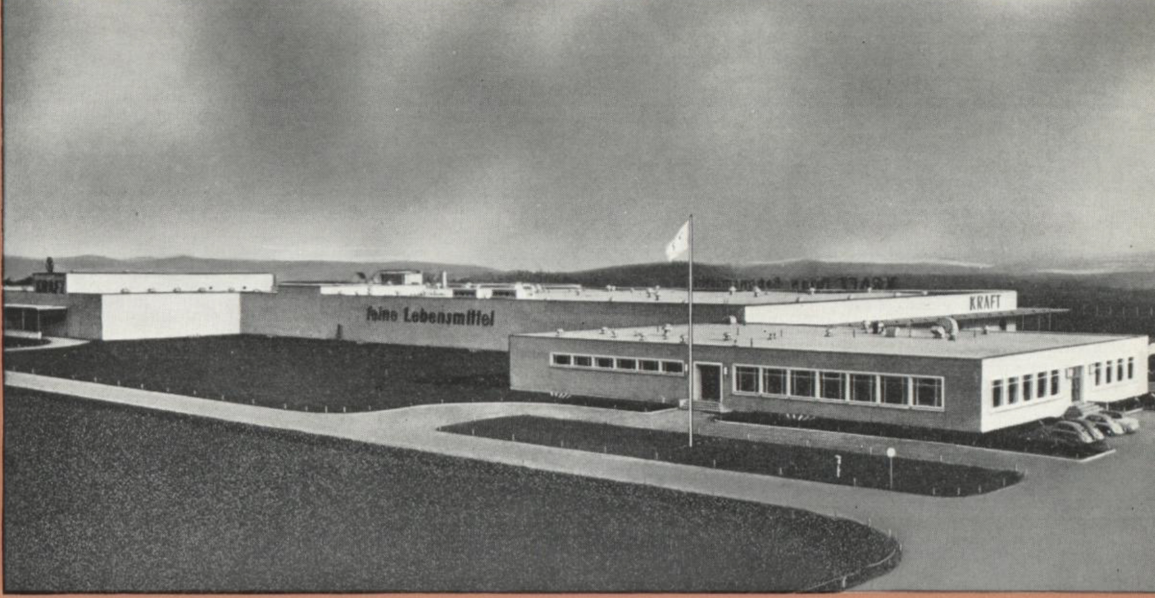
Our Kraft Foods Division made important progress in product and packaging developments based on consumer desires. Outstanding among Kraft's product innovations in 1957 was Miracle margarine—a new whipped product, light in texture and easy to spread. Packaged six bars to a pound, Miracle margarine scored an instant success in the market. To the fine line of salad products, there were added three new varieties, Catalina, Oil and Vinegar and Low Calorie Dressings.

During the year, Kraft also expanded the line of packaged, sliced natural cheeses so that they now include seven of the most sought-after varieties. The Company has the most complete line of packaged sliced cheeses—in both natural and process form—offered to consumers today.

In 1957, we also supplemented our confection line by placing the popular, bite-size candy "Fudgies" in national distribution; while Kraft's line of jellies and preserves, now in wide demand, was increased by several new flavors.

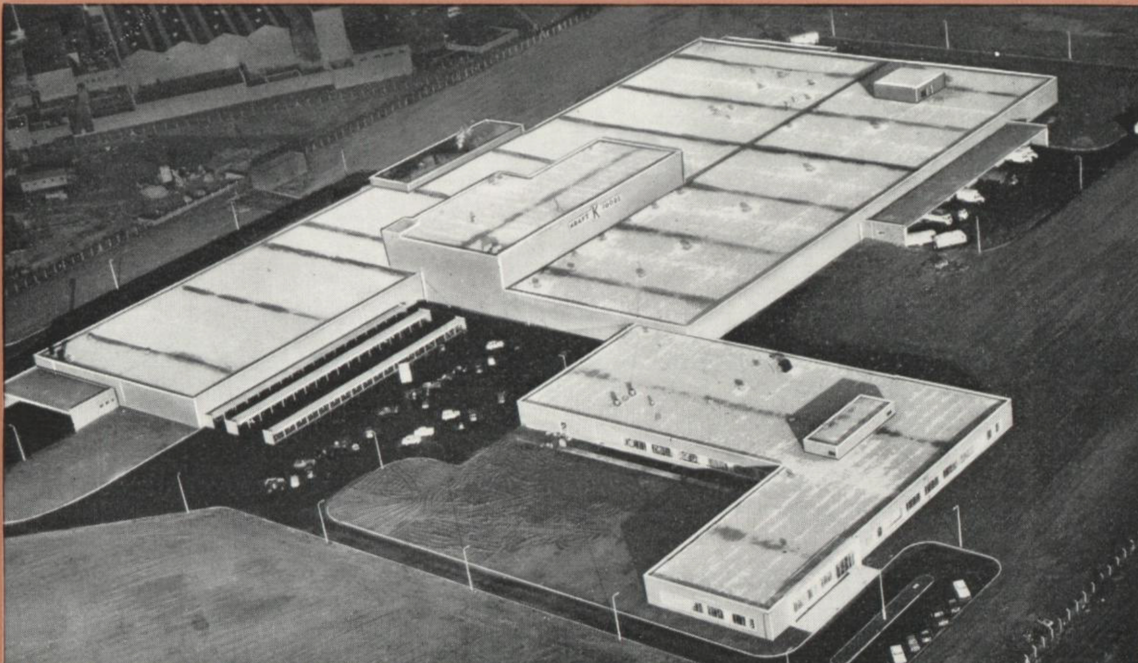
Throughout the year, the same practical question of changing public tastes engaged our attention in the effort to advertise and promote our

Our newest foreign plants

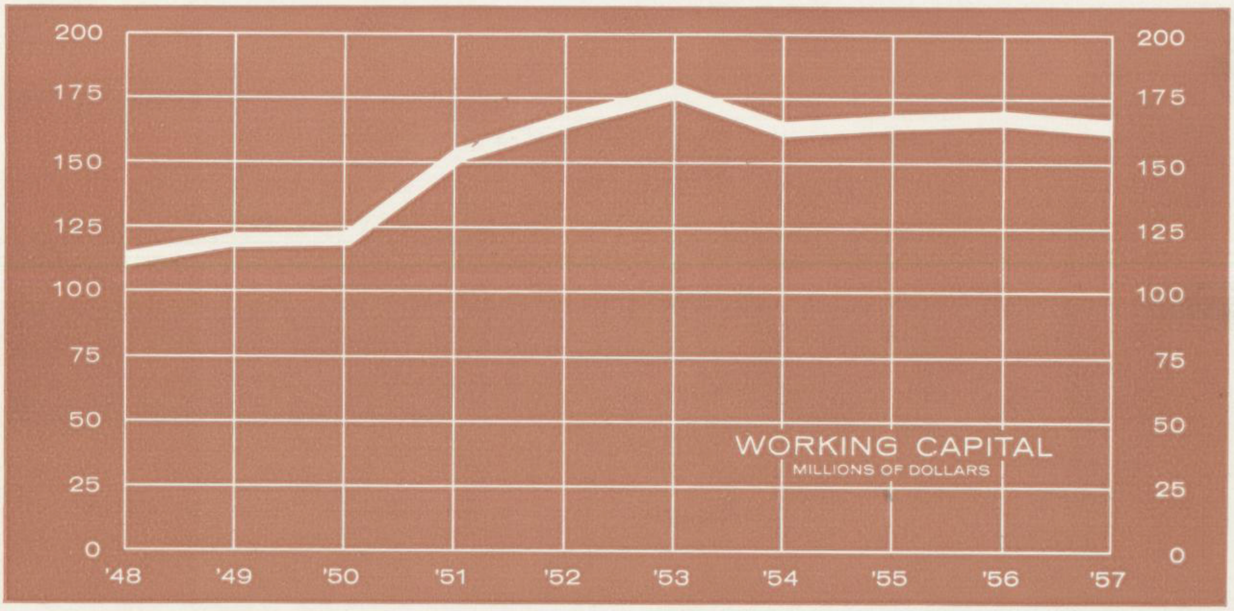


RIGHT: Panoramic view of modern plant at Fallingbostel, near Hamburg, Germany, which went into operation in 1957.

CENTER: Facade of plant formally opened at Melbourne, to meet increasing demands of Australian market.



RIGHT: Aerial photo showing scope of new plant at Liverpool, which expands our capacity to serve the United Kingdom.



products, and thus maintain the firm position of all our brands in today's highly-competitive market for quality foods. To this end, the Company continued to expand its sales activities, under a concept which calls for closer coordination of product promotion, merchandising, advertising, market research, and consumer services.

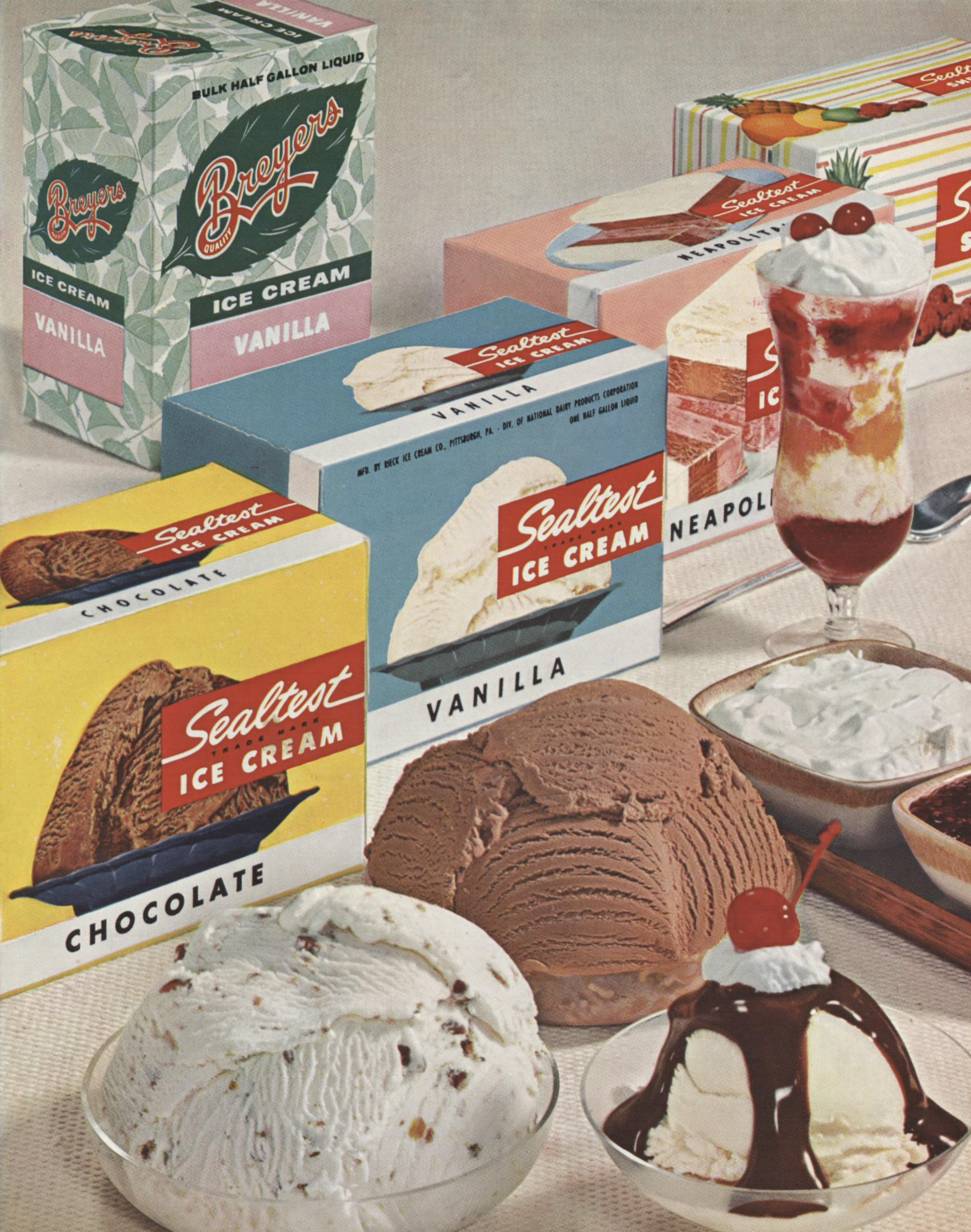
Kraft Foods Division advertising during the year was focused on major sales promotions of both new and established products, with strong emphasis upon new ideas in cookery created in the Kraft Kitchens, whereby the housewife was encouraged to make additional uses of Kraft products in home recipes and menus. Marking its 10th anniversary during 1957, the Kraft Television Theatre continued to receive critical acclaim for the excellence of its entertainment and the quality of its television commercials.

Strong advertising support was placed behind the promotion of Sealtest milk and ice cream, through the use of newspapers and magazines. The extensive outdoor advertising program on billboards was expanded into about 750 Sealtest markets, with displays divided between milk and ice cream. Spot radio and television commercials were used in selected markets utilizing recipes developed in the Sealtest Kitchens.

A promising phase of our promotional activities involved the expansion of our efforts to increase the sale of our products to the restaurants, hotels and cafeterias which feed the millions of Americans who frequently eat away from home. Our various divisions placed increased stress last year upon service to these customers in order to effect deeper penetration of this market.

INTEGRATION PROGRAM

In last year's Annual Report, we told stockholders of our plan of integration and consequent simplification of the Company's corporate structure. This program, begun in 1956, was virtually completed in 1957 and is now in effect, with our former subsidiary companies operating as Divisions of National Dairy. Under this Division structure we are achieving, at every level of management and operations, a greater degree of teamwork and a more closely-knit organization than ever before. The Company maintains its long-established policy of decentralized operating management by which responsibility is delegated throughout the organization, so that decisions can be made in the field. As a result, our Divisions are responsible for regional and local operations; and the competence of operating


VANILLA
ICE CREAM
Breyers
BULK HALF GALLON LIQUID
Breyers
QUALITY
ICE CREAM
VANILLA
ICE CREAM
VANILLA
Sealtest
SH
Sealtest
ICE CREAM
NEAPOLITA
Sealtest
ICE CREAM
VANILLA
MFD. BY RIECK ICE CREAM CO., PITTSBURGH, PA. - DIV. OF NATIONAL DAIRY PRODUCTS CORPORATION
ONE HALF GALLON LIQUID
Sealtest
TRADE MARK
ICE CREAM
NEAPOLI
VANILLA
Sealtest
ICE CREAM
CHOCOLATE
Sealtest
TRADE MARK
ICE CREAM
CHOCOLATE

personnel is constantly improved by the exercise of positive action within the framework of Company policies.

Good Neighbors in the Community

Wherever National Dairy operates—whether it is a large city, a small town or a rural territory—our employees conduct themselves with a strong sense of responsibility toward the growth and constant betterment of their communities, giving their personal time and support to many worthwhile local causes. They are not only good neighbors, they are good citizens . . . and we encourage them to participate actively in civic affairs, since we believe that the Company also has an obligation to help the communities where we operate and where our people live and work. To mention but a few examples, our employees have consistently demonstrated their good citizenship over the years by serving on school boards, hospital councils and church committees . . . by taking part in local drives for all kinds of health agencies and charitable organizations . . . by supporting the programs of a wide variety of civic groups and service clubs . . . and by showing an interest in local recreational and sports activities.

The people of National Dairy are residents and homeowners of long standing in their communities, so that they are an integral part of the local economic fabric. Just as in civic affairs, our employees also join together with their friends and neighbors to promote the best interests of home industry. In this connection, their earnings —which last year totaled $244,558,000—have a powerful effect, since employees spend their incomes in the community . . . for clothing, food, shelter, utilities, transportation and leisure-time activities . . . in the same way that our operating divisions purchase locally many types of raw materials and supplies. Our employees also utilize community banking and business services, and pay taxes locally, as we do. The Company takes pride in the fact that the men and women of National Dairy make so many important contributions to the progress of their home cities, and that we are able to share the role of good neighbor in the communities we serve together.

Board and Management Changes

During the year, three new Directors were elected by our stockholders to the Board. They were: Richard C. Bond, President, John Wanamaker Philadelphia, Inc.; David L. Luke, President, West Viriginia Pulp and Paper Company; and Walter N. Thayer, Partner, J. H. Whitney & Co.

These men succeeded three other Directors who had served on our Board with honor and distinction. They were: L. A. Van Bomel, who was President of National Dairy from 1941 to 1952, and Chairman of the Board from 1952 to 1957; K. T. Keller, former President of Chrysler Corporation, and a member of our Board from 1952 to 1957, and W. S. S. Rodgers, former President of The Texas Company, who served with us from 1951 to 1957.

At the 1957 organization meeting of the Board of Directors, the following executives were elected to positions of broader responsibilities: E. E. Stewart, President, to the additional office of Chairman of the Board; J. Huber Wetenhall, Vice-President, to the position of Executive Vice-President; George H. Rutherford, Vice-President, to the Chairmanship of the Finance Committee; and J. Clyde Loftis, President, Kraft Foods Division, to a Vice-Presidency of the Corporation.

We welcome this opportunity to express our appreciation to stockholders for their fine support and continued interest in National Dairy and its activities, and to our employees, customers, dealers and suppliers for the splendid cooperation which has meant so much to the Company's progress during the past year.

By order of the Board of Directors.

E E Stewart

President and
Chairman of the Board

New York, N. Y.
March 6, 1958.

KRAFT
Casino Dressing
KRAFT
Catalina Dressing
A SPICY-SWEET FRENCH DRESSING
KRAFT
Italian dressing
8 FLUID OUNCES
DO NOT FREEZE
ONE FL. PINT
MIRACLE WHIP
Salad Dressing
created by
KRAFT
KRAFT FOODS
AFTER OPENING, KEEP IN
DO NOT FREEZE
KRAFT
MAYONNAISE
Kitchen Fresh
KRAFT FOODS
KRAFT
Oil and Vinegar
DRESSING
ONE FL PINT
Miracle
FRENCH
DRESSING
created by
KRAFT FOODS
KRAFT
FRENCH
DRESSING
ONE FLUID PINT
KRAFT FOODS

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC AND CANADIAN SUBSIDIARY COMPANIES

Consolidated Balance Sheets

ASSETS

	December 31	
CURRENT ASSETS:	1957	1956
Cash	$ 54,917,860	$ 50,246,516
U. S. Government and other short-term securities, at cost	None	1,370,753
Notes and accounts receivable, less reserve	65,841,382	65,947,907
Inventories, lower of average cost or market—		
Products and materials	129,265,906	133,850,696
Supplies	17,151,316	16,284,262
Total Current Assets	$267,176,464	$267,700,134
INVESTMENTS AND OTHER ASSETS:		
Foreign subsidiaries not consolidated	$ 13,138,266	$ 10,266,392
Miscellaneous investments, deposits and receivables, less reserves	5,052,771	4,464,803
	$ 18,191,037	$ 14,731,195
PROPERTY, PLANT & EQUIPMENT (Stated substantially at cost):		
Land	$ 16,584,893	$ 15,333,463
Buildings	143,516,901	132,261,994
Machinery and equipment	278,150,393	261,351,497
	$438,252,187	$408,946,954
Less—Reserve for depreciation	198,576,562	187,830,346
	$239,675,625	$221,116,608
PREPAID AND DEFERRED ITEMS	$ 3,875,105	$ 2,362,465
INTANGIBLES	$ 6,350,191	$ 6,350,191
	$535,268,422	$512,260,593

(See Notes to Consolidated Financial Statements, pages 18, 19 and 20.)

NATIONAL DAIRY PRODUCTS CORPORATION
AND DOMESTIC AND CANADIAN SUBSIDIARY COMPANIES
Consolidated Balance Sheets

LIABILITIES

	December 31	
	1957	1956
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 90,168,219	$ 84,903,851
Provision for Federal and Canadian taxes on income	24,968,111	28,897,741
Less—Short-term U. S. Government securities	(18,335,416)	(21,853,416)
Debenture sinking fund requirements and Note due within one year, less Debentures held in treasury ($3,000 in 1957 and $332,000 in 1956)	3,247,000	2,918,000
Total Current Liabilities	$100,047,914	$ 94,866,176
LONG-TERM DEBT:		
2¾% Debentures due December 1, 1970	$ 37,500,000	$ 39,000,000
3% Debentures due December 1, 1970	23,400,000	24,300,000
3⅛% Debentures due June 1, 1976	27,000,000	27,600,000
3⅛% Notes (Due $250,000 annually in Canadian funds)	1,000,000	1,250,000
	$ 88,900,000	$ 92,150,000
DEFERRED FEDERAL AND CANADIAN TAXES ON INCOME	$ 2,618,327	$ 1,542,327
RESERVES FOR INSURANCE, ETC.	$ 2,125,709	$ 2,348,689
CAPITAL STOCK AND SURPLUS:		
Common stock, authorized 16,000,000 shares (par value $5 per share) —		
Issued and outstanding (1957—13,845,458 shares, 1956—13,809,746 shares)	$ 69,227,290	$ 69,048,730
Capital surplus, per statement attached	17,058,907	16,180,969
Earned surplus, per statement attached	255,290,275	236,123,702
	$341,576,472	$321,353,401
	$535,268,422	$512,260,593

(See Notes to Consolidated Financial Statements, pages 18, 19 and 20.)

CONSOLIDATED PROFIT AND LOSS

	Year ended December 31 1957	1956
INCOME:		
Net sales	$1,432,319,287	$1,352,878,027
Other income	6,129,771	5,693,239
Total	$1,438,449,058	$1,358,571,266
INCOME DEDUCTIONS:		
Cost of products	$1,052,908,499	$ 986,071,274
Delivery expense	152,616,046	145,237,271
Selling expense	97,106,038	99,909,430
General and administrative expense	48,749,101	47,278,772
Miscellaneous charges—net	575,795	793,707
Interest on long-term debt	2,735,227	2,813,496
Provision for Federal and Canadian taxes on income	39,700,000	34,750,000
Total	$1,394,390,706	$1,316,853,950
NET PROFIT FOR THE YEAR	$ 44,058,352	$ 41,717,316

The provision for depreciation charged to costs and expenses amounted in 1957 to $27,916,640 and in 1956 to $26,284,502.

(See Notes to Consolidated Financial Statements, pages 18, 19 and 20.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS...*December 31, 1957*

PRINCIPLES OF CONSOLIDATION

All domestic and Canadian subsidiary companies have been included in consolidation except a mutual insurance company. Information concerning the foreign subsidiaries not consolidated is shown herein on Page 21.

FEDERAL AND CANADIAN INCOME TAXES

The Company, for income tax reporting only, has adopted the declining-balance method of computing depreciation (involving increased rates of depreciation) on the major classes of its buildings, machinery and equipment in the United States acquired after December 31, 1953, as permitted by the U. S. Internal Revenue Code of 1954, and on all such assets in Canada whenever acquired as permitted under Canadian tax laws. For all other purposes, including the financial statements, the straight-line method is being continued. The reduction in Federal and Canadian income taxes for the year 1957 arising from the additional deduction for depreciation so allowable for income tax

NATIONAL DAIRY PRODUCTS CORPORATION
AND DOMESTIC AND CANADIAN SUBSIDIARY COMPANIES
Statements of Consolidated Surplus

CONSOLIDATED EARNED SURPLUS

	Year ended December 31 1957	1956
Balance at beginning of year	$ 236,123,702	$ 214,986,671
Net profit for the year	44,058,352	41,717,316
Refund of prior years' Federal income taxes, including interest of $1,527,989 less Federal income taxes of $794,554 applicable thereto	None	1,919,690
Reduction of reserve for prior years' Federal income taxes	None	1,343,720
	$ 280,182,054	$ 259,967,397
Dividends on common stock—$1.80 per share in 1957; $1.75 in 1956	24,891,779	23,843,695
Balance at end of year	$ 255,290,275	$ 236,123,702

CONSOLIDATED CAPITAL SURPLUS

	1957	1956
Balance at beginning of year	$ 16,180,969	$ 6,631,131
Excess of consideration received over par value of shares issued	877,938	9,549,838
Balance at end of year	$ 17,058,907	$ 16,180,969

(See Notes to Consolidated Financial Statements, pages 18, 19 and 20.)

COMPTROLLER'S CERTIFICATE

The foregoing financial statements have been prepared under my direction from the companies' books kept under my supervision and, to the best of my knowledge and belief, fairly state the consolidated position of National Dairy Products Corporation and domestic and Canadian subsidiaries as of December 31, 1957 and the consolidated operations for the year ended on that date.

New York, N. Y., March 6, 1958.

A Boag Jr.
Comptroller

reporting is estimated to be about $4,145,000. Of this amount, $3,069,000, representing the tax reduction applicable to regularly-recurring additions and replacements of machinery and equipment, as estimated by the management, is reflected as an addition to 1957 earnings through a reduction in the provision for 1957 Federal and Canadian taxes on income. The balance of $1,076,000 of such tax reduction, which is attributable to additional depreciation for tax reporting on machinery and equipment additions in excess of regularly-recurring replacements, and on buildings, has been deferred and is included in "Deferred Federal and Canadian Taxes on Income" in the accompanying balance sheet.

LONG-TERM DEBT AND EARNED SURPLUS

The Indenture and Supplemental Indentures under which the Debentures of the Company are outstanding contain certain provisions with respect to the payment of dividends on the capital stock. Under these provisions, $65,500,000 of consoli-

(*Continued*)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS...*Dec. 31, 1957 (cont'd)*

dated earned surplus was not available for cash dividends at December 31, 1957.

The Indentures also require that certain varying minimum amounts of Debentures of each series be retired each year through the operation of a sinking fund. Aggregate minimum sinking fund requirements for the next two years, 1958-1959, are $3,000,000 (principal amount) each year.

EMPLOYEES' STOCK OPTION PLAN

Under the Employees' Stock Option Plan approved in 1952, there were 494,083 shares of the authorized and unissued common stock of the Company reserved at December 31, 1957, for sale to officers and other key employees. At that date 1,684 employees held options to purchase a total of 494,083 shares at prices ranging from $25.975 to $38.60 per share, with an aggregate purchase price of $15,669,594 and no shares remained available for future grants. Options become exercisable in cumulative periodic installments extending over the terms of such options (generally ten years or to earlier retirement date), commencing not earlier than one year from the date of grant; as of December 31, 1957, options were exercisable for the purchase of 115,100 shares.

On March 7, 1957, options were granted to purchase 20,651 shares at $36.10 per share. Under the Plan no options were permitted to be granted after April 17, 1957. Options became exercisable during 1957 with respect to 59,292 shares having an aggregate purchase price of $1,833,664. During the year, 24,976 shares of common stock were issued under the Plan and the proceeds of $688,790 were credited to the common stock and capital surplus accounts.

COMPANY PENSION PLANS

Charges to costs and expenses with respect to the Company's pension plans, amounted to $5,758,000 in 1957 and $4,498,000 in 1956. It is the intention to fund the remaining past service cost of the non-contributory plan in installments to 1981; on this basis, such unfunded past service cost at December 31, 1957 for those of the eligible employees presently covered is estimated to be $27,400,000.

INCENTIVE COMPENSATION PLANS

Under year-to-year incentive compensation plans of the divisions, key employees received approximately $3,886,000 for 1957. These plans covered a total of 2,422 employees, none of whom received as much as 1% of the total. No executive officer or director of the Company participated in these plans.

AUDITORS' CERTIFICATE

To The Board of Directors and Stockholders of National Dairy Products Corporation:

We have examined the consolidated balance sheet of National Dairy Products Corporation (a Delaware corporation) and domestic and Canadian subsidiary companies as of December 31, 1957, and the related statements of consolidated profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination for the year 1956.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of National Dairy Products Corporation and domestic and Canadian subsidiary companies as of December 31, 1957, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y., March 6, 1958.

Arthur Andersen & Co

NATIONAL DAIRY PRODUCTS CORPORATION

Foreign Subsidiaries Not Consolidated

COMBINED CONDENSED BALANCE SHEETS

	December 31 1957	1956
Current assets	$27,368,083	$24,449,656
Investments and other assets	261,321	1,260,452
Property, plant and equipment, less reserve for depreciation	22,255,524	17,678,574
Prepaid and deferred items	228,604	162,374
	$50,113,532	$43,551,056
Current liabilities*	$14,328,955	$11,776,722
Long-term debt*	6,588,169	6,626,378
Reserves for insurance, etc.	1,170,188	1,039,242
	$22,087,312	$19,442,342
Net tangible assets	$28,026,220	$24,108,714
Less—Minority interest	4,208,961	3,870,186
Company's equity in net tangible assets	$23,817,259	$20,238,528
Company's investment in and advances to foreign subsidiaries not consolidated per Consolidated Balance Sheets	$13,138,266	$10,266,392

* *Exclusive of amounts owed to parent company and consolidated subsidiaries.*

COMBINED CONDENSED STATEMENTS OF PROFIT AND LOSS

	Year ended December 31 1957	1956
Income:		
Net sales	$95,599,784	$83,393,439
Other income	357,105	478,548
Total	$95,956,889	$83,871,987
Income deductions:		
Cost of products	$73,859,841	$64,944,289
Delivery, selling, general and administrative expenses	16,180,258	12,061,689
Interest on long-term debt	321,558	278,163
Provision for taxes on income	2,305,431	2,986,286
Total	$92,667,088	$80,270,427
Net profit	$ 3,289,801	$ 3,601,560
Less—Minority interest	598,681	578,198
Company's equity in net profit	$ 2,691,120	$ 3,023,362
Dividends received by Company	$ 1,984,263	$ 1,594,210

All assets and liabilities, other than property, plant and equipment, long-term debt and certain reserves, are translated at the rates of exchange prevailing at the end of each year. The effect of fluctuations in exchange rates is reflected in profit and loss.

CONDENSED TEN-YEAR STATEMENT OF CONSOLIDATED ASSETS AND LIABILITIES

(All amounts are expressed in thousands)

WORKING CAPITAL	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948
CURRENT ASSETS										
Cash and marketable securities	$ 54,918	$ 51,617	$ 60,148	$ 82,322	$ 82,598	$ 39,528	$ 42,156	$ 38,836	$ 53,593	$ 45,690
Notes and accounts receivable (net)	65,841	65,948	55,613	49,231	50,733	50,534	46,735	38,919	32,825	36,893
Inventories	146,417	150,135	135,488	111,912	107,306	136,865	122,750	94,434	80,124	89,712
Total Current Assets	$267,176	$267,700	$251,249	$243,465	$240,637	$226,927	$211,641	$172,189	$166,542	$172,295
CURRENT LIABILITIES										
Accounts payable and accruals	$ 90,168	$ 84,904	$ 75,305	$ 72,079	$ 58,281	$ 54,402	$ 54,143	$ 47,164	$ 42,477	$ 40,093
Federal and Canadian taxes on income	24,968	28,897	38,617	36,334	49,729	42,777	39,479	30,600	22,150	16,200
Less—U. S. Government securities	(18,335)	(21,853)	(34,238)	(33,397)	(49,113)	(41,850)	(39,150)	(30,600)	(22,150)	—
Debenture sinking fund requirements and Note due within one year, less Debentures held in treasury	3,247	2,918	2,180	1,750	1,415	1,850	1,850	1,850	1,100	500
Total Current Liabilities	$100,048	$ 94,866	$ 81,864	$ 76,766	$ 60,312	$ 57,179	$ 56,322	$ 49,014	$ 43,577	$ 56,793
Working Capital	$167,128	$172,834	$169,385	$166,699	$180,325	$169,748	$155,319	$123,175	$122,965	$115,502
PROPERTY, PLANT & EQUIPMENT—NET	239,676	221,117	205,528	191,490	176,384	174,528	172,699	160,050	146,132	134,316
INVESTMENTS, OTHER ASSETS AND PRE-PAID ITEMS**	22,066	17,094	12,502	11,510	7,946	7,740	6,188	11,202	10,929	11,031
Total	$428,870	$411,045	$387,415	$369,699	$364,655	$352,016	$334,206	$294,427	$280,026	$260,849
LONG-TERM DEBT	$ 88,900	$ 92,150	$ 95,400	$ 98,650	$101,400	$103,850	$105,700	$ 77,550	$ 79,400	$ 81,000
RESERVES, ETC.	4,744	3,892	2,704	2,631	14,398	13,162	11,842	11,482	11,018	25,320
Total	$ 93,644	$ 96,042	$ 98,104	$101,281	$115,798	$117,012	$117,542	$ 89,032	$ 90,418	$106,320
Book Value of Common Stock**	$335,226	$315,003	$289,311	$268,418	$248,857	$235,004	$216,664	$205,395	$189,608	$154,529

NOTE: *Canadian subsidiaries included beginning in 1951.
**Excluding intangibles.

NATIONAL DAIRY PRODUCTS CORPORATION

AND DOMESTIC AND CANADIAN* SUBSIDIARY COMPANIES

CONDENSED TEN-YEAR STATEMENT OF CONSOLIDATED PROFIT AND LOSS

(All amounts are expressed in thousands, except per share and other statistics)

	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948
INCOME										
Net sales	$1,432,319	$1,352,878	$1,260,230	$1,210,328	$1,232,126	$1,141,296	$1,066,177	$906,641	$897,675	$986,404
Other income	6,130	5,693	5,393	3,902	4,582	4,191	3,746	3,298	2,445	2,465
Total income	$1,438,449	$1,358,571	$1,265,623	$1,214,230	$1,236,708	$1,145,487	$1,069,923	$909,939	$900,120	$988,869
INCOME DEDUCTIONS										
Cost of products	$1,052,909	$ 986,071	$ 910,490	$ 874,950	$ 912,586	$ 852,988	$ 793,857	$662,935	$668,051	$779,298
Delivery expense	152,616	145,237	136,900	128,995	126,712	117,787	108,083	97,340	95,187	94,001
Selling expense	97,106	99,910	89,185	84,679	76,245	67,841	64,183	53,343	48,945	46,549
General and administrative expense	48,749	47,279	45,944	44,986	36,318	31,871	33,617	29,953	28,729	26,373
Miscellaneous charges—net	576	794	508	736	411	719	1,001	903	1,568	(767)
Interest on long-term debt	2,735	2,813	2,909	2,991	3,074	3,133	2,788	2,200	2,231	1,857
Federal and Canadian taxes on income	39,700	34,750	39,340	39,500	50,525	43,349	39,876	30,600	22,150	16,200
Total income deductions	$1,394,391	$1,316,854	$1,225,276	$1,176,837	$1,205,871	$1,117,688	$1,043,405	$877,274	$866,861	$963,511
Net profit for the year	$ 44,058	$ 41,717	$ 40,347	$ 37,393	$ 30,837	$ 27,799	$ 26,518	$ 32,665	$ 33,259	$ 25,358
PAYMENTS										
Dividends	$ 24,892	$ 23,844	$ 21,601	$ 20,840	$ 19,853	$ 19,316	$ 18,460	$ 17,737	$ 13,860	$ 11,306
Payroll	244,558	233,491	221,866	211,522	203,724	190,482	177,752	161,601	156,888	152,574
Taxes	54,373	49,708	53,029	52,333	62,758	54,668	50,944	40,924	32,110	23,824
PER SHARE OF COMMON STOCK†										
Earnings transferred to earned surplus	$ 3.18	$ 3.02	$ 2.98	$ 2.77	$ 2.31	$ 2.11	$ 2.08	$ 2.57	$ 2.63	$ 2.01
Dividends	1.80	1.75	1.60	1.55	1.50	1.50	1.45	1.40	1.10	.90
Taxes	3.93	3.60	3.91	3.88	4.71	4.15	3.99	3.22	2.54	1.89
Book value (excluding intangibles)	24.21	22.81	21.36	19.91	18.68	17.86	16.98	16.18	15.01	12.29
OTHER STATISTICS										
Number of—										
Stockholders	68,364	66,478	64,841	63,177	62,318	63,205	63,797	64,420	66,764	67,656
Employees	46,332	46,496	45,905	45,733	45,274	44,405	44,264	43,060	43,615	44,702

NOTE: *Canadian subsidiaries included beginning in 1951.
†All prior years adjusted to give effect to the 100% stock dividend of September 15, 1954.

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George H. Rutherford
J. Huber Wetenhall

Members of this committee are executives of National Dairy Products Corporation or of its divisions, and are designated by the Board of Directors.

Transfer Agent
Manufacturers Trust Company
New York, New York

Registrar
The Chase Manhattan Bank
New York, New York

Counsel
Sullivan & Cromwell

Auditors
Arthur Andersen & Co.

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